

Message Text

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PAGE 01 SANTIA 04854 112040Z

11

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 FEA-01

AGR-10 /080 W

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R 111648Z JUL 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3943

UNCLAS SANTIAGO 4854

E.O.11652:N/A

TAGS: AFSP, ALOW, AFIN, CI

SUBJ: INFLATION IN JUNE

REF: SANTIAGO 3762

1. THE NATIONAL STATISTICAL INSTITUTE (INE) ANNOUNCED JUNE INCREASE IN CONSUMER PRICE INDEX (CPI) AT 19.8 PERCENT. INCREASE IN FOOD WAS 17.6 PERCENT, HOUSING 37.3 PERCENT, CLOTHING 10.7 PERCENT AND MISCELLANEOUS 22.2 PERCENT DURING MONTH.

2. INFLATION FOR FIRST HALF OF YEAR HAS REACHED 169.9 PERCENT WHEREAS BY THIS TIME LAST YEAR IT HAD REACHED 145.6 PERCENT. ON A TWELVE-MONTH BASIS THERE IS A SLIGHT DECLINE FROM LAST MONTH FROM 427.4 TO 422.9 PERCENT.

3. COMMENT: WE HAD ANTICIPATED AN INFLATION RATE FOR JUNE IN EXCESS OF 20 PERCENT BECAUSE OF SUBSTANTIAL PRICE RISES IN KEY PRICE CONTROLLED ITEMS (E.G. FUEL AND BREAD) WHICH TOOK PLACE IN LATE MAY OR EARLY JUNE. THESE OFFICIAL PRICE RISES ALONE HAD AN IMPACT OF 6 PERCENTAGE POINTS ON THE JUNE INFLATION RATE. ALSO, A GENERAL WAGE READJUSTMENT OF 71 PERCENT TOOK EFFECT ON JUNE 1, AND IN THE PAST THESE READJUSTMENTS ADDED A COST-PUSH KICK TO THE INFLATION RATE AS PRODUCERS AND RETAILERS PASSED THE INCREASE ON TO

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PAGE 02 SANTIA 04854 112040Z

CONSUMERS IN HIGHER PRICES.

4. WE ARE NOW SEEING SOME EVIDENCE THAT LACK OF AGGREGATE DEMAND IS FORCING PRICE REDUCTIONS AT THE RETAIL LEVEL EVEN THOUGH PRODUCER COSTS MAY STILL BE INCREASING. FOR INSTANCE, MANY STORES ARE OFFERING SALES WHICH CONSTITUTE SIGNIFICANT PRICE REDUCTIONS, AND THE SUGAR INDUSTRY RECENTLY LOWERED THE RETAIL PRICE BY 5 PERCENT. SUBSTANTIAL DEFLATIONARY PRESSURES APPEAR TO EXIST IN THE ECONOMY. THEY SHOULD BECOME MORE EVIDENT IN SUCCEEDING MONTHS, PROVIDING PRESENT GOC ECONOMIC POLICIES ARE MAINTAINED.
THOMPSON

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